



Stagnation or Growth? Algeria's development pathway to 2040

Trade

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Trade

Hydrocarbons (petroleum gas, crude petroleum and refined petroleum) dominate Algeria's exports. According to the most recent data in 2017, they accounted for 94% (€37.4 billion) of total exports, while semi-finished products accounted for 4.5% of the rest of exports.

Algeria's trade balance was historically positive but started showing a deficit in late 2012. The trade deficit jumped from €15.7 billion in 2015 to €17.4 billion in 2016.[1] In 2017 it stood at about €9.5 billion.[2]

Imports are largely controlled by politically connected corporate barons who get tax holidays, energy subsidies and credit from state-owned banks to expand their businesses.[3] Because they are entrenched and incentivised to import, they effectively prevent the industrialisation of Algeria.[4]

In 2018, the GoA imposed temporary restrictions on imports to protect foreign currency reserves and incentivise local production and diversification.[5] In light of the COVID-19 pandemic, the government introduced additional restrictions on imports in 2020 and committed to reduce imports by \$6 billion. The aim is to cap imports at \$30 billion in 2020.[6]

As a result of a 2005 free trade agreement, most of Algeria's trade is with the European Union (EU). This is in spite of the fact that its trade complementarity with the Maghreb region is virtually identical with that of Europe and, in some instances, better. For example, instead of trading with Mauritania and Morocco, where Algeria's trade complementarity index was higher in 2016, it mostly traded with Italy.

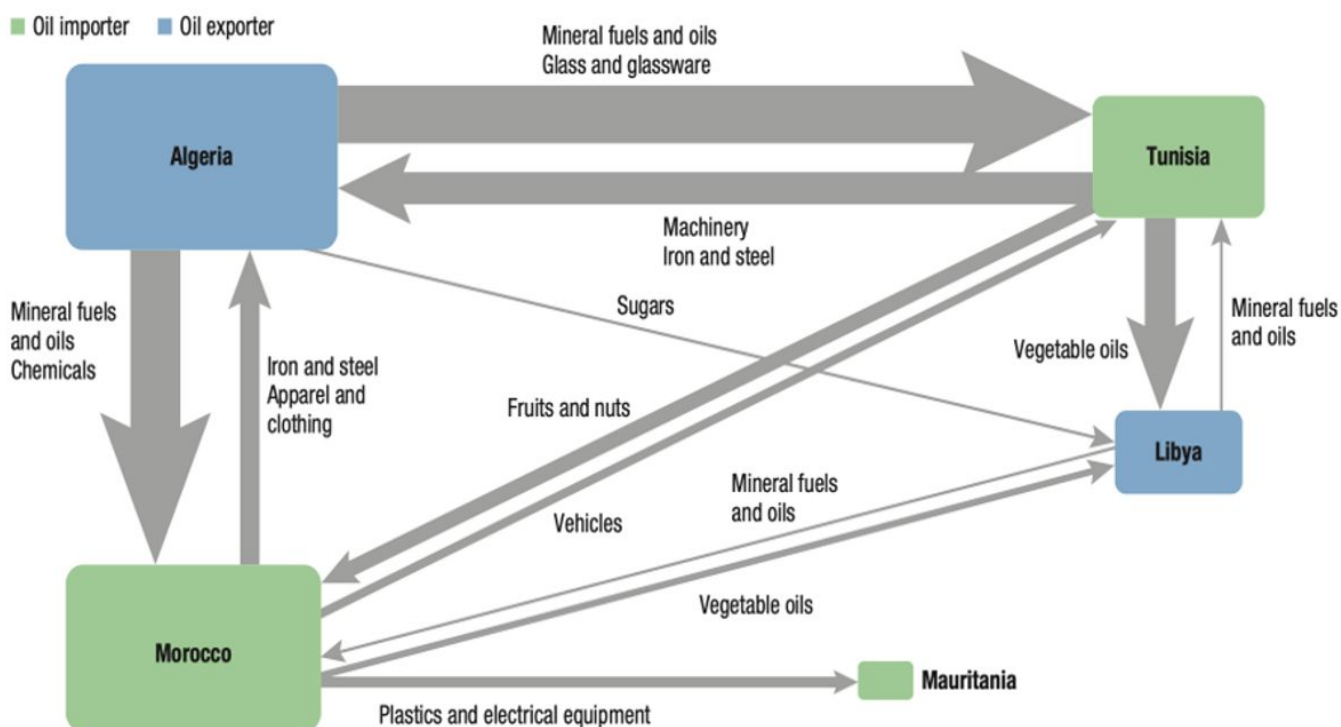
Trade within the North African region is limited and Algeria's poor export performance reflects this. In fact, the Maghreb is the least economically integrated bloc in the world with a share of intra-regional trade of only around 5% of total trade.

The lack of regional integration is a significant obstacle to diversification and growth for countries in the region. A mere 4% of Algeria's trade is within the Maghreb and the 1 600 km border between Algeria and Morocco has been closed since 1994, reflecting the extent to which fraught political relations in the region determine economics.[7]

In a 2019 IMF report on how economic integration could accelerate growth in the Maghreb, the authors point to the lack of regional considerations on trade and the restrictions on trade and capital flows that constrain regional integration.

The report lists the myriad economic benefits that would flow from such integration. These include attracting FDI, easing the movement of capital and labour, ensuring more efficient resource allocation and making the region more resilient to external shocks and market volatility. However, except for Morocco, instead of increasing, regional trade openness has steadily declined and traders face significant hurdles.[8]

Chart 14: Intra-regional trade flows



Sources: UN Comtrade, 2018; and IMF staff calculations.

Source: IMF

Source: IMF[9]

Note: Size of the nodes is proportional to total exports; width of the arrows is proportional to the size of the flow

Despite (and perhaps because of) the limited formal trade within North Africa, there is evidence of significant volumes of informal trade with Tunisia and Mali. This informal trade is facilitated by the associated topography—mountains and deserts that offer ample opportunities for illicit activities. Gasoline is ten times cheaper in Algeria than in Tunisia and informal traders benefit from this disparity at the expense of tax revenues.

Tax and subsidy differentials are the main drivers of the considerable unregulated and informal trade between Algeria and its neighbours.[9]

Similarly, there is evidence of significant informal trade between Algeria and Mali despite the closure of the 1 300 km border between the two countries since 2013. As a result of the cross-border trade between southern Algeria and northern Mali, the area benefits from lower prices than if goods came from the south of Mali. This phenomenon partially explains the lower poverty levels in the north of Mali, particularly in and around Kidal.[2]

While trade with its North African neighbours stagnates or takes the form of informal and illegal trade, Algeria will be phasing out its tariffs as part of its free trade agreement with the EU. The agreement was meant to take effect in September 2020 if it were not able to renegotiate the terms.

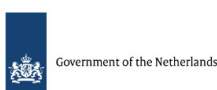
The EU is Algeria's largest trading partner, and it is the EU's third-largest supplier of natural gas, after Russia and Norway. In return, Algeria imports machinery, transport equipment and agricultural products.[10]

Given its proximity to the EU and the proposed free trade zone, it seems unlikely that Algeria will be able to pursue a manufacturing-growth path without significant asymmetrical trade arrangements with the largest economic bloc globally.

Endnotes

1. Oxford Business Group, [Algeria's economy on stable footing and demonstrating great potential](#)
2. OEC, [Algeria](#)
3. H Saleh, [Algeria's corporate barons cast themselves as saviors of economy](#), Financial Times, 11 July 2018
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6. I Kimouche, [Coronavirus: Algeria's imports to reduce to \\$6b within 90 days](#), Echorouk Online, 23 March 2020
7. AP Kireyev et al., [Economic Integration in the Maghreb: An untapped source of growth](#), IMF, Departmental Paper 19/01, 13 February 2019, 14
8. AP Kireyev et al., [Economic Integration in the Maghreb: An untapped source of growth](#), IMF, Departmental Paper 19/01, 13 February 2019, vii and 7
9. AP Kireyev et al., [Economic Integration in the Maghreb: An untapped source of growth](#), IMF, Departmental Paper 19/01, 13 February 2019, 12
10. AFP, [Algeria wants to 'reassess' EU trade deal](#), ENCA, 10 August 2020

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Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the ISS. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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